

# Washington State Department of Commerce

## Competitive Washington

### How Our State Ranks

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Deputy Director

**November 2012**



**Department of Commerce**  
Innovation is in our nature.

# Commerce Mission: Grow and Improve Jobs

## Key Metrics:

1. Overall job growth and growth in high-, medium- and low-wage jobs;
2. Income per job, hourly;
3. Growth in income per job vs. other states

## Global Priorities

Competitiveness

Education/  
Workforce Training

Efficient,  
Effective  
Regulation

Infrastructure  
Investment

## Specific Priorities

Community  
Capacity

Rural Focus

Sector Focus

Small Business

Commerce Strategic Plan available at [www.commerce.wa.gov](http://www.commerce.wa.gov)

# Year-Over-Year Job Growth

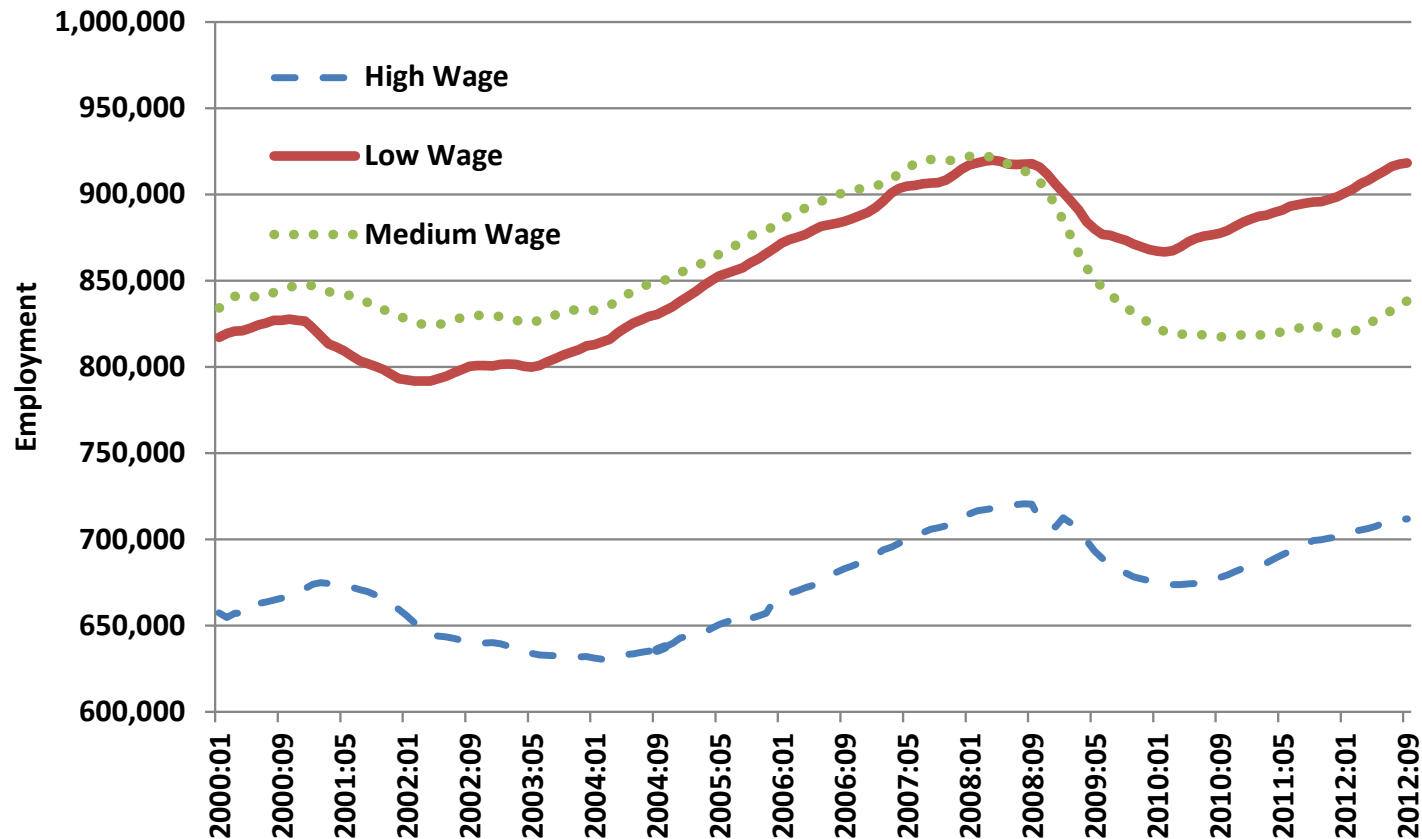
## Competitor States – By Quarter

		2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4		2011 Q1		2011 Q2		2011 Q3		2011 Q4		2012 Q1		2012 Q2			
Positive Growth											TX	2.0%	TX	2.2%	TX	2.0%	TX	2.2%	TX	1.9%	TX	2.5%	TX	2.2%		
											MA	1.2%	VA	1.8%	CO	1.3%	CO	1.6%	CO	1.6%	CO	2.0%	CO	1.7%		
											NC	1.1%	MD	1.8%	NC	1.2%	WA	1.4%	WA	1.5%	MD	1.8%	WA	1.7%		
											OR	1.0%	OR	1.5%	WA	1.0%	NC	1.2%	MD	1.4%	WA	1.5%	CA	1.7%		
											TX	1.2%	VA	1.0%	CA	1.4%	OR	0.9%	OR	1.1%	VA	1.2%	ID	1.4%	ID	1.6%
											MA	0.8%	MD	0.9%	NC	1.4%	VA	0.9%	VA	1.0%	CA	1.1%	NC	1.2%	MD	1.5%
											VA	0.6%	CA	0.8%	CO	1.3%	MA	0.7%	MD	1.0%	NC	0.8%	CA	1.1%	VA	1.2%
											CO	0.6%	WA	1.1%	CA	0.6%	CA	0.8%	OR	0.7%	VA	1.1%	MA	1.0%		
											WA	0.6%	MA	1.0%	MD	0.6%	ID	0.6%	ID	0.7%	MA	0.8%	OR	0.7%		
											ID	0.2%	ID	0.8%	ID	0.3%	MA	0.4%	MA	0.3%	OR	0.3%	NC	0.6%		
Negative Growth	NC	-0.5%	MA	-0.7%	TX	-1.1%	TX	-2.9%	MD	-3.2%	MD	-2.8%	MA	-1.1%	MD	-0.1%	CO	-0.1%								
	MD	-0.5%	VA	-0.7%	VA	-2.6%	MD	-3.1%	TX	-3.7%	VA	-3.1%	TX	-2.0%	OR	-0.6%	NC	-0.1%								
	OR	-0.6%	CO	-0.7%	MD	-2.7%	VA	-3.5%	VA	-3.8%	MA	-3.2%	VA	-2.0%	ID	-0.9%	ID	-0.2%								
	ID	-0.8%	WA	-1.1%	MA	-2.7%	MA	-3.7%	MA	-3.9%	TX	-3.7%	MD	-2.1%	NC	-0.9%	WA	-0.9%								
	CA	-1.5%	MD	-1.3%	CO	-2.9%	CO	-4.7%	CO	-5.4%	CO	-4.9%	ID	-3.0%	CO	-1.2%										
			NC	-2.1%	WA	-3.1%	WA	-4.8%	WA	-5.7%	WA	-4.9%	OR	-3.0%	CA	-1.2%										
			OR	-2.8%	NC	-4.7%	NC	-5.8%	NC	-6.2%	ID	-5.0%	NC	-3.3%	WA	-1.4%										
			CA	-2.9%	CA	-4.9%	CA	-6.4%	OR	-6.9%	NC	-5.4%	CO	-3.3%												
			ID	-3.1%	ID	-5.3%	ID	-6.8%	ID	-7.1%	OR	-5.6%	WA	-3.6%												
					OR	-5.5%	OR	-6.8%	CA	-7.2%	CA	-5.8%	CA	-3.9%												

# High-, Medium-, and Low-Wage Job Growth

Three-month Moving Average, Through September 2012

(Wages in Parentheses for 2011)



# Why Talk About Competitiveness?

- National and global competition for markets and jobs
- Continuous learning and improvement focus state resources for the greatest impact
- Better understand Washington's *real* competitive strengths and weaknesses
- Develop innovative job creation strategies and policies

# Things to Know About Rankings

- Specific indicators tend to go up and down from year to year – trends across studies and over time provide deeper insight
- Small changes in actual performance between states may translate into larger gaps in rankings
- Wide variance between study methods and transparency
- Year-to-year changes in metrics, weighting and methods limit longitudinal analysis even within individual studies
- Timing of data collection varies from study to study, so some policy changes are not immediately noticed

# Accurate Information = Better Policies

- Washington's economic policies should give more weight to the most scientific studies (Beacon Hill, Washington State Economic Climate)
- Rigorous cross-analysis of studies provides deeper insights
- Popular media rankings (Forbes, CNBC) should be used for supplemental analysis

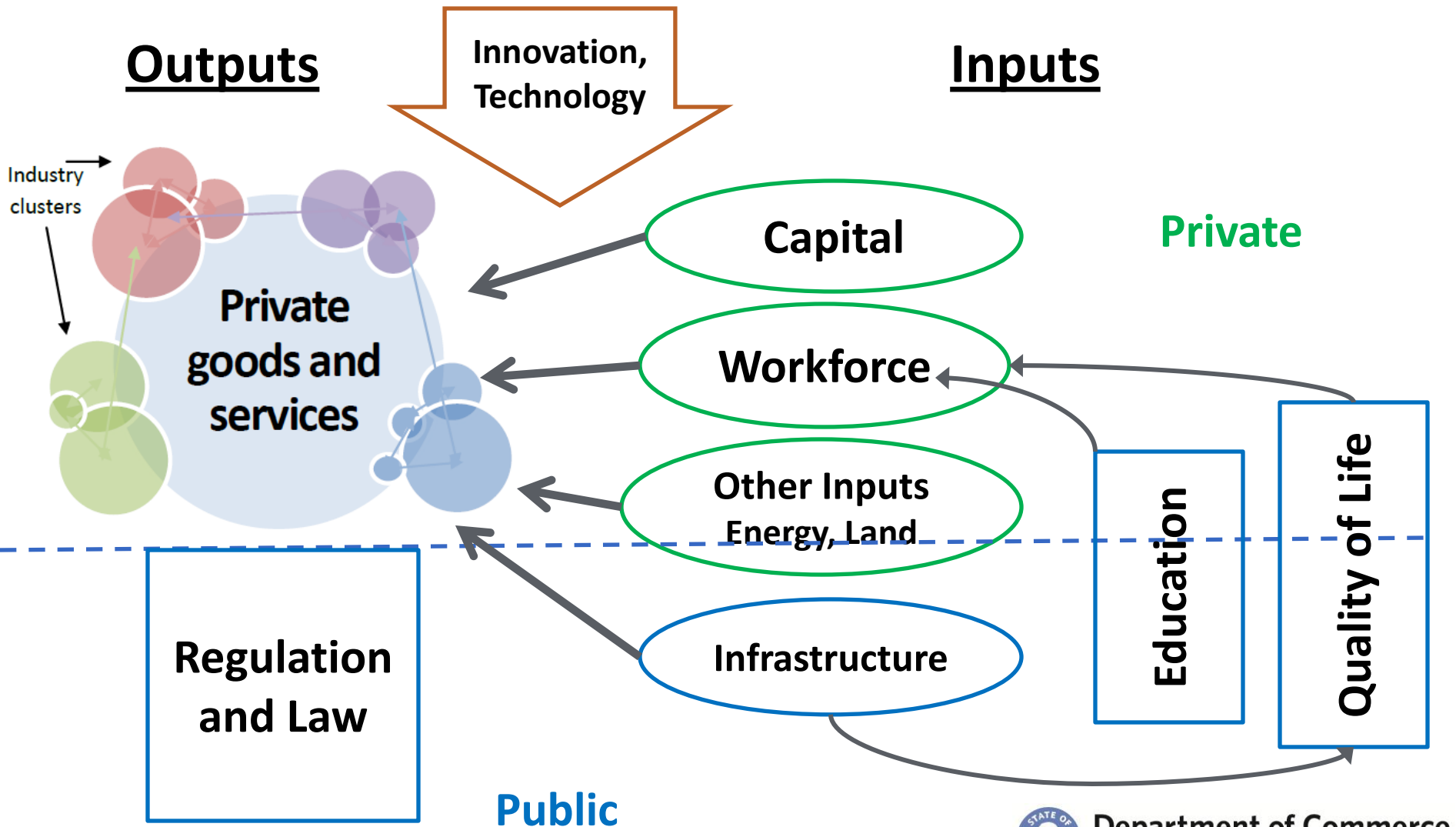
# Washington: A Competitive, High-value State

- Recent studies show a moderate trend of improvement in areas of existing competitive strength; declines in areas of existing competitiveness weakness
- Washington is a high-value state, a leader in innovation, technology, energy costs, quality of life, workforce, exports and some parts of our tax structure
- We're less competitive in employment costs, regulatory burden, sales taxes and cost of living



# Washington's Economy

## Schematic Representation



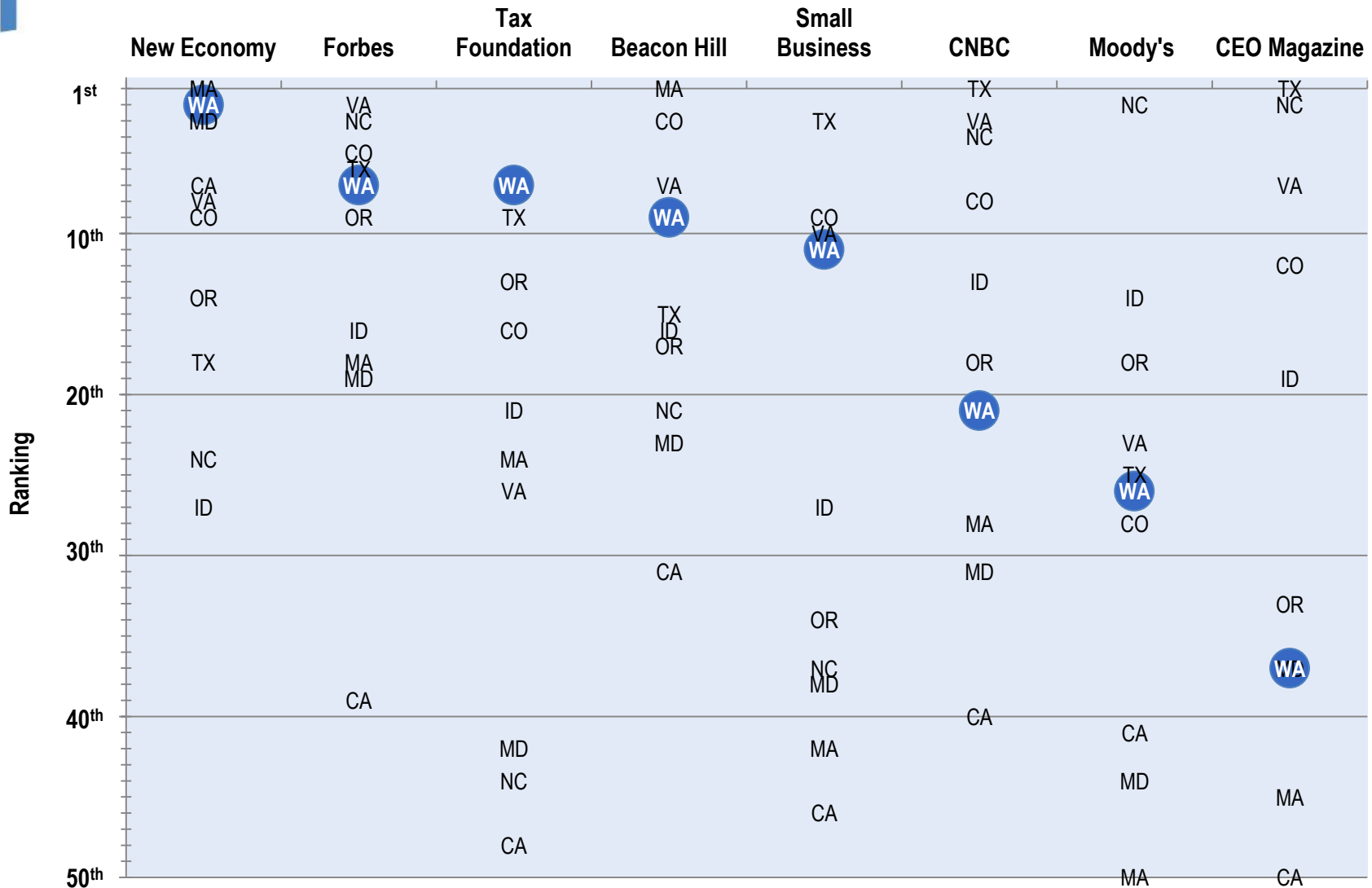
# Competitiveness Studies

## Current Rank:



Year	Index/Report	Previous Rank	Current Rank	Next Update
2010	State New Economy Index	2 <sup>nd</sup>	2 <sup>nd</sup>	11/2012
2011	Forbes	5 <sup>th</sup>	7 <sup>th</sup>	11/2012
2012	Tax Foundation State Tax Climate	8 <sup>th</sup>	7 <sup>th</sup>	1/2013
2011	Beacon Hill Institute	14 <sup>th</sup>	9 <sup>th</sup>	3/2013
2011	Small Business Survival Index	5 <sup>th</sup>	11 <sup>th</sup>	12/2012
2012	CNBC	20 <sup>th</sup>	21 <sup>st</sup>	6/2013
2012	Moody's Cost of Doing Business	21 <sup>st</sup>	26 <sup>th</sup>	6/2013
2012	CEO Magazine	34 <sup>th</sup>	37 <sup>th</sup>	5/2013
2011	WA State Economic Climate Study	10 <sup>th</sup> to 18 <sup>th</sup>	9 <sup>th</sup> to 28 <sup>th</sup>	12/2012
2011	Michael Porter/States & Clusters	N/A	1 <sup>st</sup> to 45 <sup>th</sup>	N/A

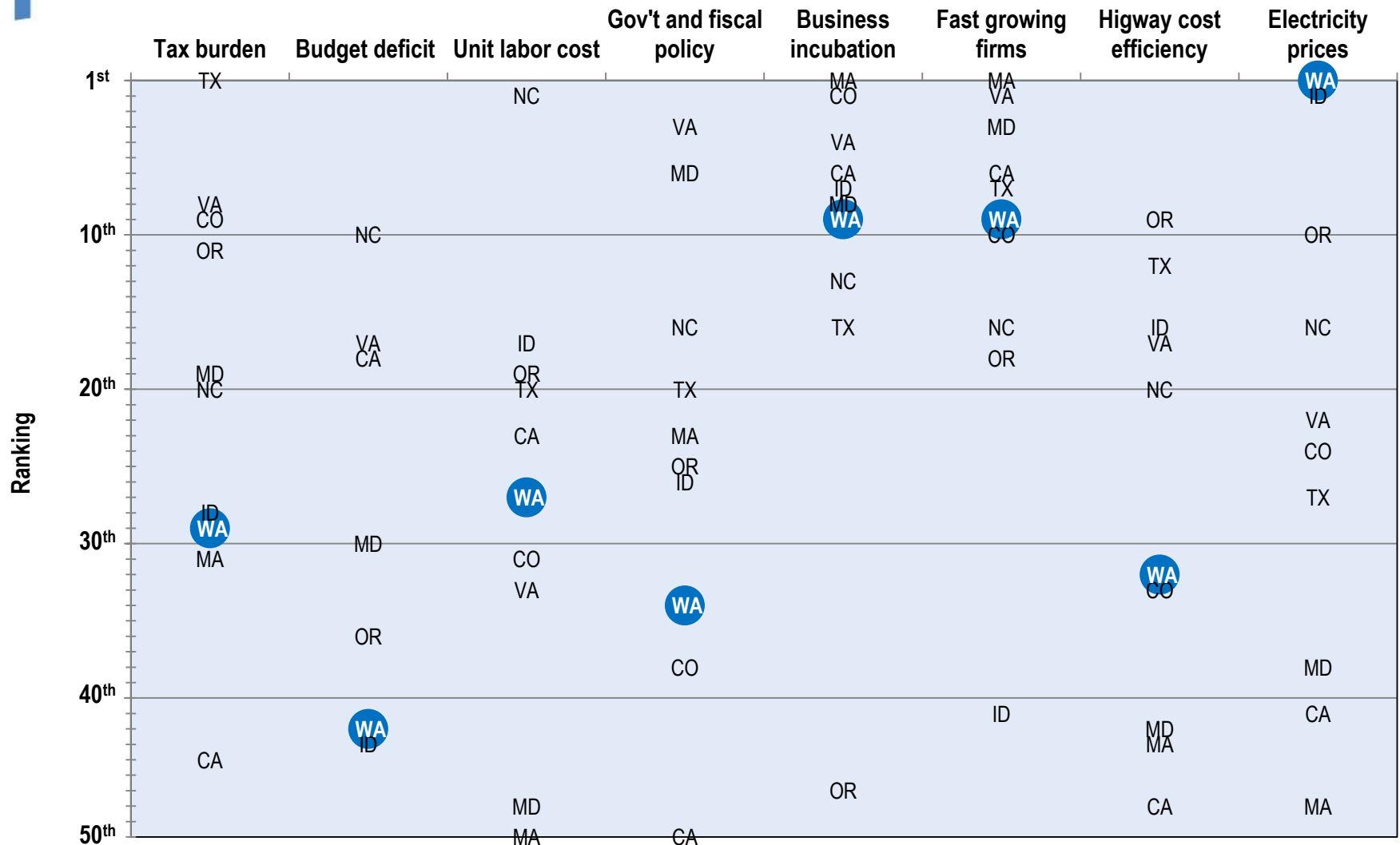
# Competitor State Standings, Overall Rank



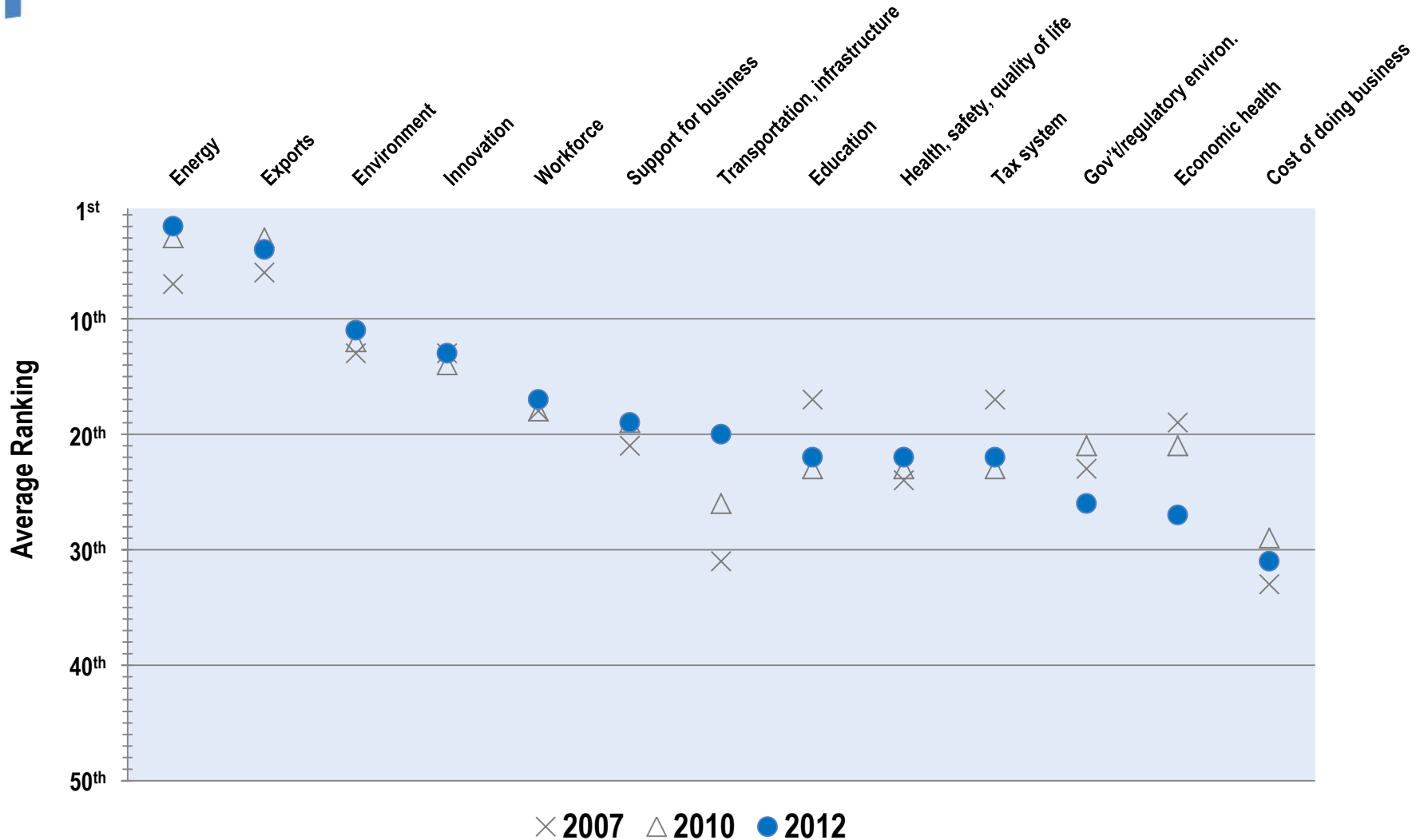
# What Types of Metrics are Studied?

Metric Areas  (Metrics from all of the competitiveness studies, re-categorized. Listed in order of WA's overall strength in each category).	Number of metrics where WA's current rank is in the:			"Strength Ratio"  (Percent of metrics where WA ranks in the top-third)	Current Average Rank
	Top third of all states (1 <sup>st</sup> to 16 <sup>th</sup> )	Middle third of all states (17 <sup>th</sup> to 33 <sup>rd</sup> )	Bottom third of all states (34 <sup>th</sup> to 50 <sup>th</sup> )		
Energy	5	-	-	100%	2 <sup>nd</sup>
Exports	4	-	-	100%	4 <sup>th</sup>
Innovation	18	3	3	75%	13 <sup>th</sup>
Environment	5	2	-	71%	11 <sup>th</sup>
Workforce	7	3	2	58%	17 <sup>th</sup>
Support for business	4	1	2	57%	19 <sup>th</sup>
Transportation, infrastructure	6	5	2	54%	20 <sup>th</sup>
Education	5	3	2	50%	22 <sup>nd</sup>
Tax system	6	4	4	43%	22 <sup>nd</sup>
Health, safety, quality of life	7	6	4	41%	22 <sup>nd</sup>
Economic health	7	3	8	39%	27 <sup>th</sup>
Gov't/regulatory structure	4	4	4	33%	26 <sup>th</sup>
Cost of doing business	4	4	9	24%	31 <sup>st</sup>
<b>Total metrics</b>	<b>82</b>	<b>38</b>	<b>40</b>	<b>51%</b>	

# Competitor State Standings, Selected Metrics



# Change in Average Rankings by Metric Area



# Changes in Selected Metric Areas

A closer look at Washington's recent performance across a selection of metrics:

- Education
- Innovation
- Economic health
- Tax system
- Government and regulatory environment
- Cost of doing business
- Transportation and infrastructure

# Education

Number of metrics: 10

Average rank in 2010: 23<sup>rd</sup>

Average rank in 2012: 22<sup>nd</sup> (+1)

2012 strength ratio: 50% (mixed strength/weakness)

Alarm Bells: 0 (metrics that fell 5+ ranks)

Prognosis: Holding steady while others improve

Study	Metric	Rank	Change	Notes
WA Climate	4 <sup>th</sup> grade reading	29 <sup>th</sup>	-2	Dropped 10 ranks since 2007; our scores stable, other states improved
Beacon Hill	Percent of population over 25 that graduated high school	14 <sup>th</sup>	-1	Dropped 8 ranks since 2007, though scores have been stable
Beacon Hill	Percent of students proficient in mathematics, 4 <sup>th</sup> grade	13 <sup>th</sup>	+3	Same rank as 2007, but slightly lower scores
WA Climate	Student/teacher ratio	45 <sup>th</sup>	+1	19.2 students per teacher lags the national average of 15 to 1

- Washington's education *scores* have remained relatively stable, but our rankings on some metrics have eroded as other states' have improved. Our average rank in this area has fallen from 17<sup>th</sup> in 2007 to 22<sup>nd</sup> in 2012.
- 4<sup>th</sup> grade reading scores exceed national average, despite rankings drops since 2007.
- Small gains in 4<sup>th</sup> grade math scores this year compared to 2010. Though still above the national average, scores have dropped slightly compared to 2007.



# Innovation

Number of metrics: 24

Average rank in 2010: 14<sup>th</sup>

Average rank in 2012: 13<sup>th</sup> (+1)

2012 strength ratio: 75% (competitive strength)

Alarm Bells: 1 (metrics that fell 5+ ranks)

Prognosis: Prime opportunity

Study	Metric	Rank	Change	Notes
New Economy	Scientists and engineers as percentage of workforce	2 <sup>nd</sup>	+5	WA increased while other leading states declined
New Economy	Independent inventor patents per 1,000 workers	7 <sup>th</sup>	+4	Related to WA's high number of scientists and strength in high-tech industries
WA Climate	Per capita university R&D spending	26 <sup>th</sup>	-5 	WA continues to decline in this metric: 18 <sup>th</sup> in 1993, 21 <sup>st</sup> in 2003 to 26 <sup>th</sup> in 2010
New Economy	Initial public offerings	26 <sup>th</sup>	+5	Several large IPOs in 2009 boosted our rank

- Growth in areas like IPOs, patents and the number of scientists and engineers were offset slightly by losses in R&D spending and immigration of knowledge workers.
- Modest increases in state support for R&D investments, and expanding the number of science and engineering students and graduates would build on our success in this area.
- Per capita university R&D spending and related metrics show persistent declines. This could eventually erode Washington's strong tech workforce.



# Economic Health

Number of metrics: **18**





Average rank in 2010: **21<sup>st</sup>**

Average rank in 2012: **27<sup>th</sup> (-6)**

2012 strength ratio: **39%** (*competitive weakness*)

Alarm Bells: **5** (*metrics that fell 5+ ranks*)

Prognosis: **Cautious optimism**

Study	Metric	Rank	Change	Notes
CNBC	Economy (composite)	45 <sup>nd</sup>	-13 	Down 27 ranks from 2010
WA Climate	Per capita personal income growth rate	45 <sup>th</sup>	-9 	Lagging indicator v. peers.
WA Climate	Annual earnings per job growth rate	37 <sup>th</sup>	-30 	Lagging indicator v. peers. We also experience more pronounced swings in this metric than other states.
WA Climate	Total employment growth rate	48 <sup>th</sup>	-14 	Lagging indicator v. peers

- Washington lags behind the nation in recovering from the 2007-09 recession, as seen in the drop in year-over-year *growth* rankings. We do much better in the *underlying* categories – in 2010 we were 13<sup>th</sup> in per capita income, 10<sup>th</sup> in annual earnings per job and 33<sup>rd</sup> in employment.
- Big improvements in these metrics are likely as the recovery continues. For example, we've already improved to 31<sup>st</sup> in per capita income growth for 2011 (not yet available when the 2011 WA Climate study was released; 2012 study due in December).

# Tax System

Number of metrics: 14

Average rank in 2010: 23<sup>rd</sup>

Average rank in 2012: 22<sup>nd</sup> (+1)

2012 strength ratio: 43% (mixed strength/weakness)

Alarm Bells: 0 (metrics that fell 5+ ranks)

Prognosis: Unique challenge and opportunity

Study	Metric	Rank	Change	Notes
Small Business	Corporate income tax	1 <sup>st</sup>	-	High marks for not having state income or capital gains taxes
Small Business	State and local property tax collections	18 <sup>th</sup>	-	Rank has gradually improved – was 25 <sup>th</sup> in 2007
Moody's	State and local tax burden (composite)	29 <sup>th</sup>	+5	Structural reliance on sales taxes reduces revenues during recessions
WA Climate	State/local tax collections per \$1,000 personal income	16 <sup>th</sup>	+5	Structural reliance on sales taxes reduces revenues during recessions

- Washington's unique tax structure results in rankings that vary widely across studies: high in studies that emphasize income and capital gains tax metrics, low in studies that focus on sales taxes (which include our B&O taxes), and towards the middle in property taxes and overall tax burden.
- Heavy reliance on sales taxes caused our ranks to rise over the last year, however the decline in revenues decreased our ranks in other metrics like state budget deficit and bond rating composite.

# Government & Regulatory Structure

Number of metrics: 12



Average rank in 2010: 21<sup>st</sup>

Average rank in 2012: 26<sup>th</sup> (-5)

2012 strength ratio: 33% (competitive weakness)

Alarm Bells: 3 (metrics that fell 5+ ranks)

Prognosis: Room for improvement

Study	Metric	Rank	Change	Notes
Forbes	Regulatory environment (composite)	20 <sup>th</sup>	-15 	Methodology change provides bonus points for right-to-work states
New Economy	E-government	27 <sup>th</sup>	-9 	Improvements in E-government in WA were outpaced by other states
Small Business	Number of government employees	14 <sup>th</sup>	-1	Washington continues to have a relatively low number of gov. employees per capita
Beacon Hill	Budget deficit as percentage of GSP	43 <sup>rd</sup>	-1	Washington's rank in this metric area has been low throughout the recession.

- This year, Forbes issued bonus points to right-to-work states and discontinued a governmental integrity measure where Washington has historically performed well.
- Washington ranks well in government employees per capita and spending trends (13<sup>th</sup>).
- Addressing projected state budget deficits could improve our strength ratio in this category.

# Cost of Doing Business

Number of metrics: 17



Average rank in 2010: 29<sup>th</sup>

Average rank in 2012: 31<sup>st</sup> (-2)

2012 strength ratio: 24% (competitive weakness)

Alarm Bells: 4 (metrics that fell 5+ ranks)

Prognosis: A continuing challenge

Study	Metric	Rank	Change	Notes
Moody's	Unit labor cost (composite)	43 <sup>rd</sup>	-16 	Employment figures revised upward while productivity steady.
CNBC	Cost of doing business (composite)	37 <sup>th</sup>	+6	Improved compared to 2011, but still 4 ranks below 2010
Forbes	Labor supply (composite)	6 <sup>th</sup>	-4	Lower migration rate compared to nation in 2010
Tax Foundation	Unemployment tax index	18 <sup>th</sup>	-	No change from 2011; +6 over 2010 potentially due to policy changes
WA Climate	Value added per hour of labor in manufacturing (weighted)	15 <sup>th</sup>	-5 	WA has declined in this metric relative to the nation for two years

- Washington consistently receives low marks for not being a right-to-work state, having a high minimum wage, and having a large union presence.
- Moody's ranking decline resulted from revisions to employment, reducing productivity per labor unit
- Unemployment insurance reforms in 2010 may be starting to show in rankings.

# Transportation & Infrastructure

## Vital statistics

Number of metrics: **13**


Average rank in 2010: **20<sup>th</sup>**

Average rank in 2012: **20<sup>th</sup> (-)**

2012 strength ratio: **54%** (mixed strength/weakness)

Alarm Bells: **0** (metrics that fell 4+ ranks)

Prognosis: **Transportation key to improvement**

Study	Metric	Rank	Change	Notes
CNBC	Infrastructure and transportation	36 <sup>th</sup>	-18 	Methodology change; had risen 17 points in 2011 report!
WA Climate	High-speed lines per 1,000	7 <sup>th</sup>	+6	Washington generally strong in tech-related metrics
Beacon Hill	Average travel time to work	37 <sup>th</sup>	-1	Slight improved compared to 2007
WA Climate	Interstate miles in poor condition	33 <sup>rd</sup>	-3	Despite recent drop, rank improved compared to 41 <sup>st</sup> in 2007

- Washington's infrastructure ranking improved in two studies compared to 2010, but we continue to score below the median in most transportation-related categories.
- Steady, if gradual, progress has brought our average rank up to 20<sup>th</sup> from 22<sup>nd</sup> in 2007.
- Decreasing average travel time to work and improving Seattle-Tacoma and Spokane travel time indices could move Washington's rank up in this area.

# Strengths We Can Further Develop

- High wage/high skill workforce
- Strong technology/innovation performance; globally competitive companies
- Statewide export-oriented culture
- Low-cost power
- No income or capital gains taxes

# Areas Where We Can Do Better

- Strengthen K-12 and higher education, such as by graduating more science and engineering students
- Improve transportation systems to move goods to markets and people to work
- Support innovative industries and clusters (such as aerospace, bio-tech)
- Further reduce business costs and regulatory burdens



# Case Study 1: SGL Automotive Carbon Fibers

*State succeeds by building on strengths, addressing weaknesses*

- \$100+ million facility will produce advanced materials for BMW
- Choice was between Moses Lake and Quebec, where they have an existing carbon fiber facility
- Washington announced as winner in April 2010

Client needs	Competitiveness issues	What happened
Low cost energy, “green” image	Energy costs	Long-term contract for low-cost, renewable hydro electricity
Qualified workforce	Skilled high-tech workforce	Secured workforce training aid from Job Skills Training and Workforce Investment Act Funds
Tight project schedule	Regulatory environment	Mobilized collaborative project team to streamline permitting
Infrastructure improvements	Transportation infrastructure	\$2 million from CERB, \$100,000 in local strategic infrastructure funding, amortized up-front utility connection fees and relocated city firing range
Financial incentives	Capital for financial incentives	<b>WA:</b> \$2 million grant from State Energy Program, \$250,000 from Governor’s strategic reserve fund <b>Quebec:</b> Offered package worth over \$10 million

## Case Study 2: Boeing 737 MAX

### *Renewing Washington's commitment to aerospace industry*

- \$22 billion order for 201 Boeing 737 MAXs
- Potential competitors: Existing Boeing facilities in Kansas, Texas and South Carolina
- Washington announced as winner in December 2011

Client needs	Competitiveness issues	What happened
Reliable supply chain	Existing, well-developed supply chain network	State, Boeing and Washington Aerospace Partnership initiated ongoing collaboration to strengthen supply chain
Qualified engineers and other employees	Skilled aerospace workforce	Existing workforce highly qualified
Acceptable employment costs	Comparatively high wages	Governor's initiatives on worker compensation and unemployment insurance, proposals to extend tax credit, establish a cabinet aerospace office
Feel assured of workforce support	Labor relations history (specific to Boeing)	Boeing and machinists' union negotiate new contract and improve relations
Future workforce to replace retirees (50 percent of engineers within next 5 years)	Aging Boeing workforce, too few qualified grads	Expanded high school STEM program, developed 800 new openings for engineering students at state universities, provided enhanced manufacturing courses

## Case Study 3: Gerbing's Heated Clothing

### *Missed opportunity to bring manufacturing home*

- Headquarters and R&D located in Tumwater; production contracted to China
- Sought a US location to repatriate 200 manufacturing jobs
- Choice was between Washington and North Carolina
- Washington lost out in April 2011

Client needs	Competitiveness issues	What happened
Experienced textile workforce	Workforce costs and sector experience	<b>WA:</b> Little existing textile workforce, no offer of dedicated training <b>NC:</b> Has experienced textile workforce, provided additional training at no cost
Assistance locating a suitable facility	Facility affordability	<b>WA:</b> Could meet facility requirements <b>NC:</b> Identified a vacant facility and helped negotiate an affordable lease
Financial incentives for equipment	Capital for financial incentives	<b>WA:</b> \$81,000 in Strategic Reserve Funds for training assistance <b>NC:</b> Mobilized over \$300,000 in cash for equipment from the state, county and city

# Maintaining a Competitive Edge

- Washington may not be able to control methodological decisions or others changes in the rules of the game
- What we can do is better understand Washington's *real* competitive strengths and weaknesses, and tailor policies and strategies to the national and, increasingly, global competition for markets and jobs.

## Next Steps

- Continue to track and analyze data so we have the most current, reliable and accurate information to make Washington more competitive
- Collaborate with other state-level entities to analyze data, identify information gaps and develop policies
- Greatest opportunities for improvements in competitiveness: education, transportation and regulatory reform